

Message Text

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SUBJECT: PORTUGUESE DIFFICULTIES WITH IMF NEGOTIATIONS

REF: LISBON 2343

1. PORTUGUESE AMBASSADOR THEMIDO CALLED ON DEPTOFF
APRIL 3 TO REPORT ON CONVERSATIONS HE HAD IN LISBON WITH
PRIME MINISTER SOARES AND FINANCE MINISTER CONSTANCIO
CONCERNING GOP-IMF NEGOTIATIONS FOR A SECOND IMF STAND-BY
AGREEMENT. THEMIDO SAID THAT HE WAS NOT MAKING "AN
OFFICIAL PRESENTATION" BUT MERELY PASSING ON SYNOPSIS
OF SENIOR LEVEL GOP VIEWS.

2. THEMIDO REPORTED THAT THE ECONOMIC SITUATION IS ALREADY
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BECOMING DIFFICULT IN PORTUGAL WITH WIDESPREAD COMPLAINTS
ABOUT THE EFFECTS OF AUSTERITY MEASURES ALREADY ADOPTED.
SOARES AND CONSTANCIO REPORTEDLY FEAR THAT THE IMF
MEASURES NOW BEING PUSHED BY TEAM IN LISBON COULD HAVE
SERIOUS CONSEQUENCES. CONSTANCIO IS QUOTED AS SAYING
THAT "THE ADOPTION OF THE IMF RECOMMENDATIONS WOULD RE-
SULT IN SOCIAL, ECONOMIC AND POLITICAL CHANGE IN PORTUGAL".

THEMIDO SAID THAT CDS LEADER FREITAS DO AMARAL AND MOST OTHER POLITICAL LEADERS STRONGLY OPPOSE THE IMF'S PRESENT RECOMMENDATIONS.

3. ACCORDING TO THEMIDO, PORTUGAL'S 1977 OVERALL DEFICIT WAS ACTUALLY \$1.5 BILLION AND THE GOP IS CONVINCED THAT THE 1978 DEFICIT CANNOT BE HELD TO THE IMF'S NEW RECOMMENDED LEVEL OF \$900 MILLION. CONSTANCIO REPORTEDLY ALSO OPPOSES THE IMF TEAM'S DEVALUATION PROPOSALS, SINCE HE BELIEVES THAT THEY WOULD ONLY INCREASE THE ALREADY SOARING INFLATION RATE.

4. THEMIDO SAID THAT THE GOP BELIEVES THE TIME HAS COME FOR THE USG TO INFLUENCE THE IMF TO "MODERATE ITS CONDITIONS". HE ADDED THAT SOARES AND CONSTANCIO BELIEVE THAT THE FUND IS VERY SENSITIVE TO US AND FRG VIEWS ON THE NEGOTIATIONS AND SOARES, AT LEAST, HAS BEEN ENCOURAGED BY THE NEW YORK TIMES EDITORIAL OF MARCH 25 TO THINK THAT THE USG HAS DOUBTS ABOUT THE FUND'S RECOMMENDATIONS. THEMIDO STATED THAT IF THE LISBON TALKS WERE BROKEN OFF OR REACH AN IMPASSE, SOARES OR CONSTANCIO WOULD LIKE TO COME TO THE U.S. TO EXPLAIN THE PORTUGUESE VIEWS AT A "VERY HIGH LEVEL."

5. WHEN DEPTOFF ASKED HOW THE UNCOVERED DEFICIT WOULD BE FINANCED, THEMIDO SPECULATED THAT THE NEW LOAN PROGRAM

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MIGHT HAVE TO BE PUT TOGETHER. HE THOUGHT THE ORIGINAL \$1.5 BILLION TARGET FOR THE MULTI-NATION LENDING EFFORT HAD BEEN A MORE ACCURATE FIGURE FOR PORTUGAL'S NEEDS.

6. DEPTOFF SUGGESTED THAT THE GOP DO EVERYTHING IT CAN TO AVOID A BREAK OR IMPASSE IN THE NEGOTIATIONS. HE RECOMMENDED THAT CONSTANCIO TALK WITH AMBASSADOR BLOOMFIELD AND OUTLINE THE MAJOR REMAINING DIFFERENCES BETWEEN THE GOP AND THE IMF.

7. WE NOTE THAT THEMIDO'S OBSERVATIONS, WHICH CONTAINED NO SPECIFICS ON IMF TALKS, ARE CONSISTENT WITH EARLIER REPORTS OF GENERAL GOP ATTITUDES ON THESE NEGOTIATIONS. FYI ONLY: RE PARA 4, OUR UNDERSTANDING IS THAT IMF TEAM NOW IN LISBON WILL NOT LEAVE WITHOUT A SECOND-TRANCHE STAND-BY AGREEMENT UNLESS IT FIRST OBTAINS PERMISSION FROM ITS WASHINGTON HEADQUARTERS TO DO SO. WE ARE NOT AWARE OF ANY SUCH REQUEST TO IMF WASHINGTON. IT IS POSSIBLE THAT A TEAM MEMBER MAY RETURN TO WASHINGTON FOR CONSULTATION WHILE THE REST OF THE IMF GROUP CONTINUES IN LISBON.

8. WOULD WELCOME ANY COMMENTS EMBASSY MAY WISH TO MAKE. VANCE

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